
COMM CARE CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012



A Professional Accounting Corporation

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COMMCARE CORPORATION

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Independent Auditors' Report

The Board of Trustees
CommCare Corporation

Report on the Financial Statements

We have audited the accompanying consolidated balance sheets of CommCare Corporation (a nonprofit organization) as of June 30, 2013 and 2012, and the related consolidated statements of revenues and expenses and changes and net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CommCare Corporation as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013, on our consideration of CommCare Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CommCare Corporation's internal control over financial reporting and compliance.



Metairie, Louisiana
December 19, 2013

COMM-CARE CORPORATION
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2013 AND 2012

ASSETS	2013	2012
Current assets		
Cash and cash equivalents	\$ 14,868,260	\$ 13,642,913
Cash and cash equivalents, restricted	-	3,160,000
Total cash and cash equivalents	14,868,260	16,802,913
Accounts receivable, net	8,697,187	8,427,040
Notes receivable	-	92,156
Prepaid expenses and other current assets	1,323,614	1,260,489
Total current assets	24,889,061	26,582,598
Property and equipment, net	70,576,224	71,821,923
Other assets		
Notes receivable	5,076,075	-
Cash and cash equivalents, restricted for capital acquisition	8,260,635	3,654,608
Intangible assets	6,530,110	6,788,707
Goodwill	2,937,500	2,937,500
Miscellaneous	279,054	777,660
Total other assets	23,083,374	14,158,475
TOTAL ASSETS	\$ 118,548,659	\$ 112,562,996
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	\$ 7,582,436	\$ 8,170,968
Current portion of debt of long-term debt	250,000	3,405,000
Total current liabilities	7,832,436	11,575,968
Noncurrent liabilities		
Long-term debt, less current portion	60,427,003	53,530,314
Other liabilities	1,642,754	2,382,845
Total noncurrent liabilities	62,069,757	55,913,159
TOTAL LIABILITIES	69,902,193	67,489,127
UNRESTRICTED NET ASSETS		
Commcare	47,970,088	44,581,116
Noncontrolling interest in subsidiaries	676,378	492,753
TOTAL NET ASSETS	48,646,466	45,073,869
TOTAL LIABILITIES AND NET ASSETS	\$ 118,548,659	\$ 112,562,996

The notes to the financial statements are an integral part of these statements.

COMM CARE CORPORATION
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

OPERATING REVENUES	2013	2012
Patient service revenue	\$ 70,160,807	\$ 73,284,733
Pharmacy sales	10,396,589	10,682,267
Investment income	43,419	20,067
Other operating revenues	353,583	322,511
Total operating revenues	80,954,398	84,309,578
OPERATING EXPENSES		
Nursing services	29,532,863	31,502,362
General and administrative	11,231,036	12,105,738
Therapy and ancillary services	9,020,010	7,887,955
Cost of pharmacy sales	6,772,289	7,630,041
Dietary and food	4,542,127	5,370,615
Depreciation and amortization	3,502,639	3,650,869
Plant operations and maintenance	3,350,273	3,646,488
Provider fees	2,965,528	3,211,608
Housekeeping and laundry	2,455,941	2,878,111
Activities and social services	1,414,829	1,533,099
Provision for bad debts	1,057,198	113,097
Lease expense	485,103	463,891
Advertising costs	152,204	161,058
Community services	47,700	119,603
Total operating expenses	76,529,740	80,274,535
Operating income	4,424,658	4,035,043
NON-OPERATING REVENUES (EXPENSES)		
Gain on sale of assets	1,156,758	12,479
Miscellaneous income (expense)	69,720	(13,127)
Unrealized gain (loss) on interest rate swaps	740,091	(2,382,845)
Impairment of land held for sale	(497,930)	-
Interest expense	(1,578,200)	(1,984,012)
Total non-operating revenues (expenses)	(109,561)	(4,367,505)
Change in net assets	4,315,097	(332,462)
Less change in net assets attributable to non controlling interests	(926,125)	(538,150)
Change in net assets attributable to CommCare	3,388,972	(870,612)
NET ASSETS		
Beginning of year	45,073,869	45,788,831
Distributions to noncontrolling shareholder in subsidiary	(742,500)	(382,500)
End of year	\$ 48,646,466	\$ 45,073,869

The notes to the financial statements are an integral part of these statements.

COMMCARE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,315,097	\$ (332,462)
Adjustments:		
Depreciation and amortization	3,502,639	3,650,869
Unrealized (gain) loss on interest rate swaps	(740,091)	2,382,845
Provision for bad debts	1,057,198	113,097
Impairment of land held for sale	497,930	-
Gain on sale of operating assets	(1,156,758)	(12,479)
Changes in assets and liabilities:		
Receivables (increase) decrease	(1,327,345)	(1,314,371)
Prepaid expenses (increase) decrease	(63,125)	400,776
Other assets (increase) decrease	(760,387)	35,417
Accounts payable and accrued expenses increase	(588,532)	1,247,930
Net cash provided by operating activities	<u>4,736,626</u>	<u>6,171,622</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchases of property and equipment	(10,080,522)	(6,128,094)
Proceeds from disposal of assets	10,000,000	12,479
Acquisition of Rio Sol Nursing Home, net of cash received	-	(3,790,922)
Change in cash restricted for capital acquisition	(4,606,027)	116,670
Issuance of notes receivable	(5,076,075)	-
Payments received on note receivable	92,156	313,549
Net cash used in investing activities	<u>(9,670,468)</u>	<u>(9,476,318)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on bond principal	(13,160,000)	(3,240,000)
Proceeds from issuance of long-term debt	16,920,000	-
Payments on other obligations	(18,311)	(19,843)
Distributions to non controlling shareholder in subsidiary	(742,500)	(382,500)
Net cash provided by (used in) financing activities	<u>2,999,189</u>	<u>(3,642,343)</u>
Net decrease in cash and cash equivalents	(1,934,653)	(6,947,039)
Cash and cash equivalents - beginning of year	<u>16,802,913</u>	<u>23,749,952</u>
Cash and cash equivalents - end of year	<u>\$ 14,868,260</u>	<u>\$ 16,802,913</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 1,601,036</u>	<u>\$ 1,938,873</u>

The notes to the financial statements are an integral part of these statements.

COMMCARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting policies of CommCare Corporation (the Company), a Louisiana non-profit organization, conform with generally accepted accounting principles and reflect practices appropriate to the industry in which the Company and its subsidiaries operate. The Company has adopted June 30 to be its fiscal year end to coincide with the fiscal year end of the State of Louisiana. Significant policies are summarized below.

Organization and Business Description

CommCare Corporation was incorporated on January 12, 1984 and was recognized as exempt under Section 501(c)(3) of the Internal Revenue Code on May 16, 1984. The Company was dormant until 1992 when it began acquiring skilled nursing facilities. The Company's skilled nursing facilities consist of the real properties, improvements, machinery, equipment, inventories, supplies, licenses, and other tangible and intangible assets of eleven nursing home facilities (the "Facilities") located in the State of Louisiana. The Facilities include 1,492 extended-care beds that are licensed and permitted for current operation by the Louisiana Department of Health and Hospitals and other state or Federal regulatory agencies having jurisdiction over the operations of the facilities. The Company also owns a 55% share of a pharmacy and a 60% share of a hospice provider that are both located in the State of Louisiana.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, CommCare Louisiana and CommCare Mississippi, as well as the accounts of the Company's majority owned subsidiaries, CCC Pharmacy, LLC and Senescence, LLC. Significant intercompany transactions and balances have been eliminated in the consolidation.

Patient Service Revenue and Concentration of Credit Risk

Patient service revenue is recorded at established billing rates or at the amount realizable under agreements with third-party payors. Revenues under third-party payor agreements are subject to examination and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the amounts accrued and subsequent settlements are recorded in operations in the year of settlement. The mix of revenues earned from the delivery of patient services were as follows for the periods ended June 30:

	2013	2012
Medicaid	52%	56%
Medicare	27	25
Other; including VA, Hospice and Private Payment	21	19
	<u>100%</u>	<u>100%</u>

Revenues from pharmacy sales are recorded at the time products are sold.

COMM CARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Accounts Receivable

The Company grants credit without collateral to its residents, most of whom are local residents and are covered under third-party payor agreements. Receivables net of allowances were \$8,697,187 and \$8,427,040 as of June 30, 2013 and June 30, 2012, respectively. Management performs an evaluation of amounts due from third-party payors (including estimated cost report settlements), residents, responsible parties, and insurers, and reduces accounts receivable by an allowance for uncollectible accounts. The allowance is calculated based on a number of factors including the age of the accounts, the payor type, and any ongoing disputes with third-party payors. The allowance for uncollectible accounts was \$483,901 and \$240,489 as of June 30, 2013 and June 30, 2012, respectively. Virtually all accounts receivable are pledged to secure debt (see Note 6).

Cash and Cash Equivalents and Concentration of Credit Risk

Cash and cash equivalents consist of demand deposits at commercial banks and overnight commercial repurchase agreements (repos). The Federal Deposit Insurance Corporation insures the demand deposit balances up to \$250,000. The Company's uninsured cash balances at June 30, 2013 and 2012 totaled \$12,557,126 and \$2,018,540, respectively. At June 30, 2013 and 2012, the repo balances of \$4,670,826 and \$10,623,070, respectively, were secured by securities pledged under the agreements. Virtually all deposit accounts are pledged to secure debt (see Note 6).

Certain money market funds designated for capital acquisitions are classified as restricted cash and cash equivalents.

Property, Equipment and Depreciation

Property and equipment are recorded at cost. Renewals and improvements that extend the economic life of such assets are capitalized. Expenditures for maintenance, repairs and other renewals are expensed. Upon disposition of a capital asset, the asset's cost and accumulated depreciation are removed from the balance sheet and any gain or loss is included in the results of operations. Depreciation is recorded over the estimated useful life of an asset using the straight-line method.

The Company records impairment losses on long-lived assets when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. For the year ended June 30, 2013, an impairment charge of \$497,930 was recorded on land held for sale as it was determined that the fair value of the land was less than its carrying value.

Bond Issuance Costs

The Company defers costs related to the issuance of the bonds and loan closing costs. Such costs have been capitalized and are amortized over the life of the bonds on a straight line basis which approximates the effective interest method.

COMMCARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Interest Rate Swaps

Generally accepted accounting principles require that all derivatives be recognized as assets or liabilities on the balance sheet at fair value. The Company may enter into derivative contracts to manage exposure to interest rate risk.

The Company utilizes interest rate swap agreements to convert a portion of its variable-rate debt to a fixed rate. Interest rate swaps are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged. Changes in the fair value of these interest rate swaps are reported in current period earnings (See Note 6).

Goodwill

During 2012, and as described in Note 2, the Company, as part of an acquisition, recognized goodwill. In accordance with authoritative guidance on intangible assets, goodwill is tested for impairment annually as of June 30 or on an interim basis if events or circumstances indicate that the fair value of the asset has decreased below its carrying value. The Company performed a qualitative assessment of events and circumstances to determine whether it was more likely than not that the fair value of the reporting unit that contained the goodwill was less than its carrying amount. Based on this assessment it was determined that it was not more likely than not that the fair value of the reporting unit was less than its carrying amount. As a result of this assessment, no impairment loss was recognized during the period ended June 30, 2013 and 2012. A significant amount of judgment was involved in performing these evaluations since the results are based on estimated future events.

Intangible Assets

Intangible assets consist primarily of Certificates of Need (CON). Louisiana statutes require that the Company obtain a CON prior to the addition or construction of new nursing home beds, the addition of new services or certain capital expenditures in excess of defined levels. A CON certifies that the state has made a determination that a need exists for such new or additional beds, new services or capital expenditures. CONs arose in the acquisition of existing homes. The CONs have an indefinite useful life. Management evaluates the net carrying value of all intangible assets for impairment when circumstances indicate that the assets might be impaired, but not less than annually.

Income Taxes

No provision for income taxes has been made in the accompanying financial statements. The Internal Revenue Service has determined that the Company is a qualifying 501(c)(3) organization and is exempt from income taxes. Generally accepted accounting principles require an organization to account for uncertainties in income taxes. The interpretation requires recognition and measurement of uncertain income tax positions using a "more-likely-than-not" approach. The Company has reviewed its tax positions and determined there were no outstanding or retroactive tax positions with less than a 50% likelihood of being sustained upon examination of taxing authorities. The Company's tax returns for the years ended, June 30, 2012, June 30, 2011, and June 30, 2010 remain open and subject to examination by taxing authorities.

COMMCARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Compensated Absences

Employees accumulate paid time off (PTO) at varying rates according to years of service. Employees become vested in PTO upon completion of ninety days of employment. Upon termination, all unused PTO hours are paid to the employee at the employee's current rate of pay provided that the employee has successfully completed ninety days of employment.

Advertising Costs

Advertising costs are expensed as incurred and totaled \$122,658 and \$161,058 for the years ended June 30, 2013 and 2012, respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein. Actual results could differ from those estimates.

2. Acquisition

In January 2012, the Company acquired 100% of the stock of Rio Sol Nursing Home, Inc a skilled nursing facility in Mansura, Louisiana. The Company paid \$4,068,169 including consideration of the settlement of amounts post acquisition. Identifiable intangible assets include goodwill of \$2,937,500 and the CON for \$350,000. The following table summarizes the amounts of the assets and liabilities assumed at the acquisition date:

Prepays	\$ 317,872
Cash	277,247
Accounts receivable	259,438
Fixed assets	10,000
Intangible asset (CON)	350,000
Accrued liabilities	(83,888)
Total identifiable net assets	<u>1,130,669</u>
Goodwill	<u>2,937,500</u>
Total	<u>\$ 4,068,169</u>

COMM CARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Notes Receivable

On December 4, 2012, the Company entered into a new market tax credit (NMTC) transaction to finance the construction of a new skilled nursing facility in Mansura, Louisiana. As part of the NMTC financing, the Company has a note receivable from Chase NMTC CommCare Investment Fund, LLC of \$5,076,075 at June 30, 2013. Interest accrues at a fixed rate of 1% and is payable quarterly. Principal payments begin in 2019 and the note matures on December 3, 2042.

In 2009, the Company financed the sale of its sole member interests in three mental health operations through loans for a total amount of \$920,000 with rates ranging from 3.25% to 6% per annum and maturing in 2012. The outstanding principal amount of the notes at June 30, 2013 and 2012 was \$0 and \$92,156 respectively.

4. Property and Equipment

Property and equipment consisted of the following at June 30:

	2013	2012
Land	\$ 6,379,695	\$ 7,452,141
Land improvements	3,736,306	4,010,619
Buildings and improvements	61,867,416	65,177,035
Furniture, fixtures and equipment	15,315,518	18,094,508
Construction in progress	8,463,164	3,909,056
Total property and equipment	95,762,099	98,643,359
Less accumulated depreciation	(25,185,875)	(26,821,436)
	<u>\$ 70,576,224</u>	<u>\$ 71,821,923</u>

Depreciation expense was \$3,390,051 and \$3,529,649 for the years ended June 30, 2013 and 2012 respectively. Construction in progress primarily relates to the new facility being constructed in Mansura, Louisiana. Substantially all land, buildings, improvements, and equipment are pledged to secure debt (see Note 6).

The Company leases a building and equipment under various operating leases. The future minimum fiscal year lease payments for all leases are as follows:

2014	\$ 532,128
2015	247,301
2016	100,493
	<u>\$ 879,922</u>

5. Restricted Assets

As of June 30, 2013 and 2012 the Company had cash and cash equivalents of \$0 and \$3,160,000, respectively, restricted for debt payments on the Series 2008A bonds that were retired in 2013. The restricted cash is held in trust and reflects amounts deposited by the Company for payment on bonds. As of June 30, 2013 and 2012 the Company had cash and cash equivalents of \$8,260,635 and \$3,654,608, respectively, restricted for capital acquisitions.

COMM CARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Debt Obligations

Long term debt consisted of the following as of June 30:

2013

2012

LPFA Revenue Bonds Series 2008A, dated and funded June 24, 2008, in the original amount of \$17,200,000. The bond was paid in full on July 2, 2012. The interest rate was based on the Weekly USD-SIFMA Municipal Index. The interest rate on the bonds was .09% at June 30, 2012. The Company executed an interest rate swap with JPMorgan Chase (Chase) for the term of the bonds to effectively convert the variable interest rate to a fixed rate of 3.389%. The bonds were collateralized by an irrevocable transferable direct pay letter of credit (LOC) issued by Chase Bank in the amount of \$17,397,918. The LOC is collateralized by a first mortgage and security interest in the eleven skilled nursing facilities owned by the Company including their revenues, receivables, and virtually all of their other assets. The Trustee of the bonds was The Bank of New York Mellon Trust Company.

\$

-

\$ 10,000,000

LPFA Revenue Bonds Series 2008B dated and funded July 17, 2008, in the original amount of \$47,500,000. The bond matures on August 1, 2023 and interest payments are due monthly. On November 17, 2011 the bonds were purchased by JP Morgan Chase and Trustmark National Bank and interest is calculated as 74% of one month LIBOR plus 1.45%. Previously interest was based on the Weekly USD-SIFMA Municipal Index. The interest rate on the bonds was 1.59% and 1.62% at June 30, 2013 and 2012, respectively. The Company executed an interest rate swap with JPMorgan Chase (Chase) for a five year period beginning October 1, 2011, to effectively convert the interest rate on \$35 million of the bonds to a fixed rate of 3.175%. The bonds are collateralized by a first mortgage and security interest in the eleven skilled nursing facilities owned by the Company including their revenues, receivables, and virtually all of their other assets. The Trustee of the bonds is The Bank of New York Mellon Trust Company.

43,755,000

46,915,000

Notes payable to financial institution, interest rate fixed at 1.28% with interest payable quarterly. On December 20, 2019 interest and principal payments are due quarterly until note matures on December 3, 2042. Note is secured by the property being constructed in Mansura, Louisiana and by the restricted cash and cash equivalents related to the project.

6,720,000

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COMMCARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Debt Obligations (continued)

Long term debt consisted of the following as of June 30:	<u>2013</u>	<u>2012</u>
Note payable to financial institution, interest rate fixed at .25% with interest payable quarterly. Note matures on December 3, 2019 at which time all principal and outstanding interest is due. Note is secured by the property being constructed in Mansura, Louisiana and by the restricted cash and cash equivalents related to the project	\$7,000,000	\$ -
Note payable to financial institution, interest rate is based on the one month LIBOR rate plus 2.5%. Interest rate at June 30, 2013 was 2.69%. Interest is payable monthly and principal payments are monthly commencing on June 4, 2014. Note matures on November 29, 2019. Note is secured by the property being constructed in Mansura, Louisiana and by the restricted cash and cash equivalents related to the project	3,200,000	
Notes payable secured by automobiles due in installments at various interest rates through 2015	<u>2,003</u>	<u>20,314</u>
Total debt obligations	60,677,003	56,935,314
Less current portion of debt	<u>(250,000)</u>	<u>(3,405,000)</u>
Long-term debt	<u>\$ 60,427,003</u>	<u>\$ 53,530,314</u>

Maturities of principal in subsequent fiscal years were as follows:

2014	\$ 250,000
2015	257,003
2016	3,250,000
2017	3,980,000
2018	4,455,000
Thereafter	48,485,000
Total	<u>\$ 60,677,003</u>

COMM CARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Debt Obligations (continued)

Interest expense for the years ended June 30, 2013 and 2012 was \$1,578,200 and 1,984,012, respectively. Capitalized interest costs for the years ended June 30, 2013 and 2012 were \$46,089 and \$4,187, respectively.

In order to modify exposure to interest rate risk, the Company entered into interest rate swaps with JPMorgan Chase (Chase) related to the 2008A and 2008B bond issues that are secured by letters of credit issued by the Bank. The use of the swaps effectively converts the notional amount of the swaps related to each bond issue to fixed rates of 3.389% and 3.175%, respectively. At June 30, 2013 and 2012, the notional amounts were \$3,510,000 and \$6,840,000 for the 2008 A bonds respectively, and \$35,000,000 for the 2008B bonds. The swap agreements expire on February 1, 2014 and October 3, 2016 for the Series 2008A and Series 2008B respectively. The swap agreements are subject to the ISDA Master Agreement between Chase and the Company. Terms of the agreements provide a right of set-off of security interests and collateral and netting of payments. As such, the agreements do not contain a significant investment element and are primarily "interest based". The Company has made the accounting policy decision to offset fair value amounts. Under the terms of the agreements, the only amount due between the parties is the net difference in the monthly interest rate computations; accordingly, the fair values are fully offset. The fair value of these swaps was \$1,642,754 and \$2,382,845 due the counterparty at June 30, 2013 and 2012 respectively. The Company recorded \$721,791 and \$921,162 as interest expense for the years ended June 30, 2013 and 2012 respectively, as a result of these swaps.

On February 25, 2011, the Company executed a fourth amendment and supplement to the reimbursement agreement with an effective date of July 1, 2010 resulting in an adjustment to its minimum net worth and minimum debt service requirements. The Company was in compliance with the financial covenants related to these bonds at June 30, 2013 and 2012.

During fiscal year 2006, the Company placed funds in an irrevocable trust for completion of an in-substance defeasance for three series of bonds, Louisiana Public Facilities Authority Revenue Bonds Series 1994 — Ruston, Louisiana Public Facilities Authority Revenue Bonds Series 1994, and Louisiana Public Facilities Authority 2005 Series B & C. The outstanding balance for the defeased bonds totaled \$13,400,000 as of June 30, 2013 and 2012.

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following at June 30:

	2013	2012
Accounts payable	\$ 2,605,950	\$ 2,611,376
Accrued salaries, wages, benefits, and payroll taxes	2,871,487	3,323,075
Accrued professional liability	913,514	849,045
Accrued workers compensation (see Note 9)	12,989	294,803
Other accrued expenses	1,178,496	1,092,669
	<u>\$ 7,582,436</u>	<u>\$ 8,170,968</u>

COMM CARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Fair Values of Financial Instruments

The Company determines the appropriate level in the fair value hierarchy for each fair value measurement. The level in the fair value hierarchy within which a fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The levels are as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

At June 30, 2013 and 2012, assets and liabilities measured at fair value on a recurring basis are summarized below:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
2013				
Interest rate swaps	\$ -	\$ 1,642,754	\$ -	\$ 1,642,754
Total	\$ -	\$ 1,642,754	\$ -	\$ 1,642,754
2012				
Interest rate swaps	\$ -	\$ 2,382,845	\$ -	\$ 2,382,845
Total	\$ -	\$ 2,382,845	\$ -	\$ 2,382,845

Fair values for interest rate swap agreements are based upon the amounts required to settle the contracts. Fair value of the derivative instruments are estimated using prices of financial instruments with similar characteristics, and thus the instruments are classified within Level 2 of the fair value hierarchy.

9. Workers' Compensation Insurance

Through May 2010, the Company participated in a self-insured workers' compensation plan for its Louisiana facilities. The plan was administered in accordance with Louisiana laws and had excess insurance coverage equal to or greater than the statutory limits. A third-party administrator identified, processed and settled claims. Losses from asserted claims and from unasserted claims identified under the incident reporting system were accrued based on estimates that incorporated past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. During fiscal year 2010, the Company became fully insured by Louisiana Health Care Self Insurance Fund.

COMMCARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Related Party Transactions

In 2012, the Company purchased land for development of a future nursing home location from an officer of the Company. The amount was based on an appraised value and totaled \$880,000. This purchase is included in property and equipment, net on the consolidated balance sheet.

11. Sale of assets

On July 3, 2012, the Company sold two of its Facilities for \$10,000,000 resulting in a gain of \$1,156,758. The proceeds from the sale were used to retire the 2008A.

12. Commitments and Contingencies

There are various claims and litigation against the Company as of June 30, 2013, that could materially affect its financial position at the time of the ultimate settlement of such actions. The Company has insurance coverage for all claims in the state of Mississippi. For medical malpractice cases in Louisiana, the Company is self-insured up to the first \$100,000 per claim and is covered for the excess over \$100,000 up to the statutory malpractice damages "cap" of \$500,000 through enrollment in the Louisiana Patients' Compensation Fund (the "Fund"). Management is of the opinion that the Company's reserve provides adequate coverage for the first \$100,000 of each claim outstanding. Due to the state of nursing home litigation and the unpredictability of jury verdicts, it is the opinion of management that it is reasonably possible that this estimate will change in the near term.

13. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, December 19, 2013, and determined that no additional disclosures are necessary.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
CommCare Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of CommCare Corporation (the Company), which comprise the consolidated balance sheet as of June 30, 2013, and the related statements of revenues and expenses and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Metairie, Louisiana
December 19, 2013